Market Commentary
Second Quarter 2019

EPOCH
Investment Partners

CI Global Small Companies Fund

Market Overview

- Stocks in the U.S. rose as the U.S. Federal Reserve (the “Fed”) raised investor hopes for an imminent cut in interest rates. While pointing to continued strength in the labour market and consumer spending, the Fed highlighted concerns about the U.S.-China trade dispute and its potential to damage the global economy. Trade negotiations between the two countries collapsed, leading to the imposition of higher tariffs on US$200 billion of Chinese goods. (Presidents Trump and Xi declared a truce and a resumption of negotiations after the quarter ended).

- U.S. gross domestic product grew at a faster-than-expected rate of 3.1% in the first quarter of 2019. The labour market maintained its momentum, with unemployment declining to 3.6%, the lowest rate since 1969.

- While the world’s largest economic blocs – the European Union, China and the U.S. – all reported stronger-than-expected first-quarter 2019 growth, investors anticipated a moderation in global growth as the year progressed. The International Monetary Fund (IMF) cut its 2019 and 2020 global growth forecasts, predicting that advanced economies would slow, while emerging markets would become more positive. The IMF also predicted an end to crisis conditions in Turkey and Argentina, and stabilization in China’s growth rate.

Performance Summary

- Over the second quarter of 2019, Class F of CI Global Small Companies Fund (the “Fund”) returned -1.7% while its benchmark, the MSCI World Total Return Index, returned 1.7%.

- The Fund’s underperformance during the period was driven mainly by stock selection.

Contributors to Performance

- Stock selection in the health care sector was the main contributor to the Fund’s performance during the quarter, led by Bruker Corp., which reported better-than-expected revenue and profit growth.

- Selection in the consumer staples and communication services sectors was also positive for returns during the period.

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- The largest individual contributors to Fund performance were Intermediate Capital Group PLC, which reported better-than-expected growth in its assets under management; Universal Display Corp., which announced better-than-expected profits for the first quarter of 2019 and increased earnings guidance; Bruker Corp.; En-Japan Inc., on its long-term growth plan; and LGI Homes, Inc., which increased its home closings.

- The largest individual detractors were Scapa Group PLC on its large, unexpected, customer termination; Stamps.com Inc.; Plantronics Inc., which lowered its guidance for the fiscal-year 2020; Dave & Buster’s Entertainment, Inc.; and Dalata Hotel Group PLC.

Detractors from Performance

- During the quarter, stock selection in the consumer discretionary sector was the largest detractor, driven by Stamps.com, Dave & Buster’s and Dalata Hotel Group.

- Also, Stamps.com shares continued to decline in the quarter after the company announced its intent to end its exclusive partnership with the United States Postal Service. However, we believe the company’s results should benefit over the long term from open its arrangements.

- Dave & Buster’s shares declined on worse-than-expected first-quarter 2019 results, but the company is a business with a high return on invested capital and a differentiated concept and national scale that is starting to return excess cash to shareholders.

Portfolio Activity

- During the quarter, the Fund initiated a position in Tricon Capital Group Inc., a Canadian company managing single-family rental properties in the U.S. The company has accumulated one of the largest portfolios of rental homes in the U.S. Sun Belt states, where economic growth and population migration continues to support long-term demand for housing.

- The Fund also initiated a position in Electrocomponents PLC, a leading distributor of critical electronics and machine parts to industrial companies around the world. New senior management has succeeded in driving better operational efficiencies and financial performance. We were able to build a position in this high-quality business at an attractive valuation, as – along with many U.K. companies – the stock pulled back significantly due to increased uncertainty around Brexit towards the end of 2018.

- The Fund also added television broadcasting company Nexstar Media Group Inc. The company's recent acquisition of Tribune Media Co. creates a scaled local broadcasting platform with greater pricing power and over 60 million subscribers. In our view, the growth and cost-savings potential from the transaction is not fully reflected in the company's current valuation.

- Plantronics a manufacturer of communications headsets and accessories, and video and voice-conferencing products, was another addition to the Fund. The company's free cash flow is much higher than earnings due to intangible amortization from the acquisition of Polycom Inc. Even with modest growth, Plantronics will be able to pay down debt substantially over the next few years.

- On the other hand, the Fund reduced its position in Japan, especially in the industrials sector. En-Japan was sold as the growth rate in online job advertising had slowed. The job market in Japan has become so tight that it is taking much longer for companies to fill vacancies. As a result, some of the smaller clients have reallocated advertising budgets to headhunters and employee retention.

- Also, while the core businesses of Amano Corp., Daifuku Co., Ltd. and Okamoto Industries Inc. remain robust, their growth outlooks have been clouded by a strengthening Japanese yen, increasingly cautious client decisions about capital expenditures and inventory stocking, especially in the auto and semiconductor industries; and, specifically with Amano, hiccups in its tangential businesses. The Fund exited these positions in favour of opportunities elsewhere with better risk-reward potential.

- In the U.S., the Fund exited its position in PetMed Express Inc. as the company's growth had stalled and margins continued to come under pressure due to a highly competitive environment.

- The Fund also exited from B&G Foods. Results continued to be hampered by input cost inflation, lower sales, and weaker margins due to inventory-reduction initiatives. Due to these headwinds, the outlook for the company has become more uncertain.

Outlook

- Economic growth is moderating across the globe as the current cycle matures, trade frictions begin to take hold and, in the U.S., the boost from the *Tax Cuts and Jobs Act* fades. Developed economies continue to suffer from large debt, negligible growth in the workforce and uninspiring productivity gains, although the accuracy with which those gains are measured is open to debate. Trade tensions are likely to remain a market theme and a source of volatility, and we are concerned about a bifurcation in global supply chains and its negative influence on margins.

- On an upbeat note, the digital age and the transition from “atoms to bits” implies a capital-light economy in which technology is being substituted for labour and physical assets. This points to higher returns on equity. In fact, all three components (profit margins, asset utilization and leverage) should rise. With the pace of technological change advancing at an exponential rate, we believe this transformation has only just begun. The ability of companies to generate free cash flow will become increasingly dependent on how they adapt their business models to the digital age.

- We believe our investment approach is well suited to this environment in which investment returns are more closely linked to company fundamentals. As always, we seek companies that can generate a growing stream of free cash flow and can allocate that cash effectively for the benefit of shareholders.

Class F returns (in %) as at June 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (08/08/2000)
CI Global Small Companies Fund	7.2	-12.3	5.2	5.8	10.2	4.4

Sources: Bloomberg L.P.; Morningstar Direct; and Epoch Investment Partners, Inc., as at June 30, 2019.

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Published July 24, 2019.